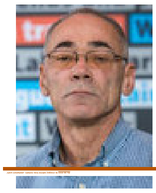
# The gap between wages and productivity

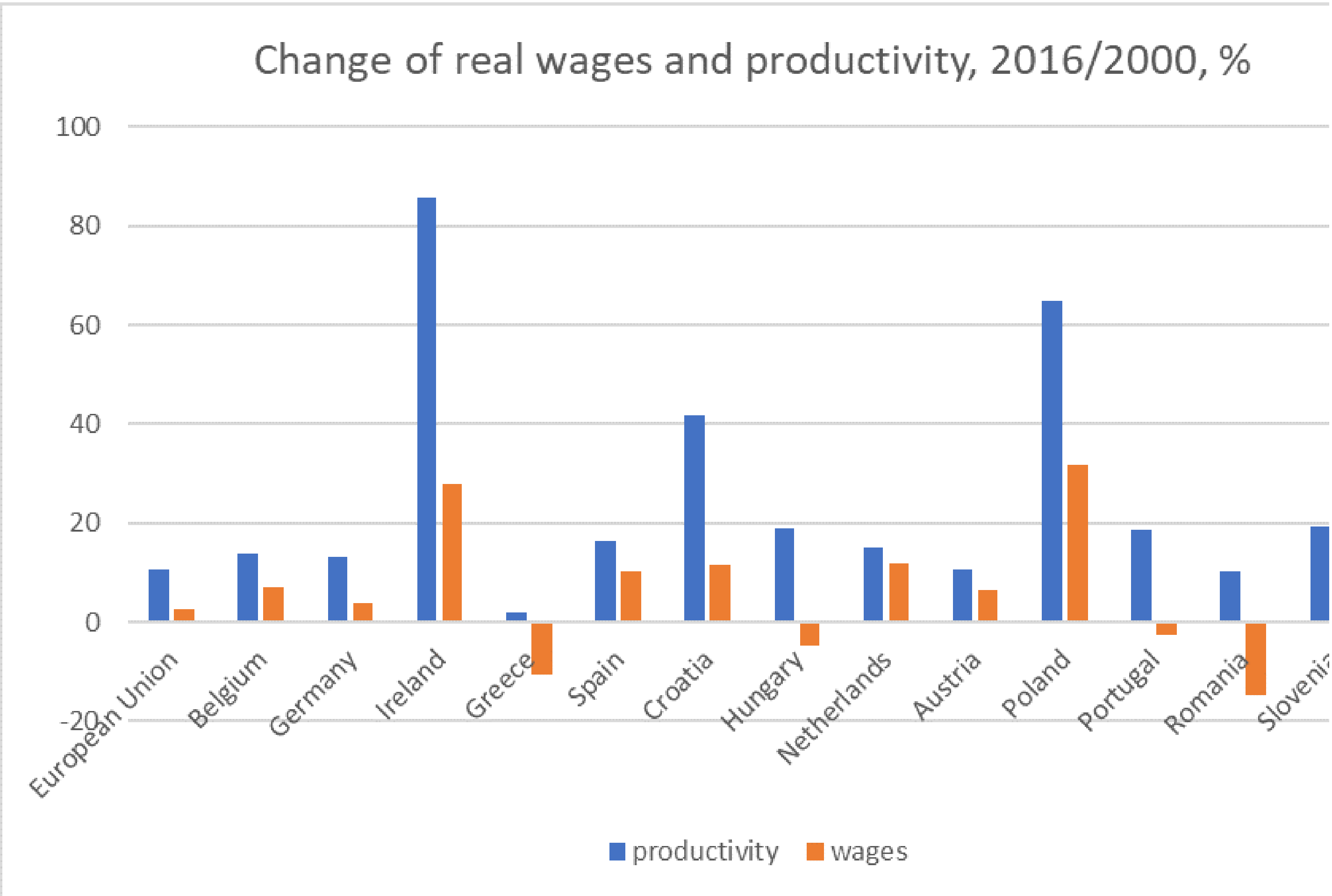


*In many EU states, wage growth has been lagging behind productivity growth over recent decades.* **Bela Galgoczi** *examines why wages and productivity – essential for a fair distribution of the spoils of economic growth – have increasingly decoupled from each other across European countries.*

The decoupling of wages from productivity – a widespread phenomenon with wage growth having been lagging behind productivity in the last decades – has not only been a concern for trade unions, but increasingly also for policy makers. The relationship between productivity and wages is a central issue for fair distribution between labour and capital. Trade unions are keen to apply a wage setting mechanism that takes account of economic realities, creates inclusive growth and makes sure that labour it getting its fair share from the wealth created. For this, the guiding principle is that nominal wage increases should compensate for inflation and reflect real productivity increases.

What we have witnessed in the last decades and particularly in the wake of the crisis was a decoupling of wage developments from productivity growth. In most industrialised economies, including the EU, wage growth has been lagging behind productivity growth. According to the OECD this appears in declines of both labour shares and of the ratio of median to average wages: the first reflecting an income redistribution from labour to capital, the second a growing inequality between wage earners. The ratio of median to average wages has declined in all but two of the OECD countries and reflects disproportionate wage growth at the very top of the wage distribution. Below I examine wage and productivity developments in the EU since 2000.

**Figure 1: Real productivity and wage developments in the EU28 and in selected member states**



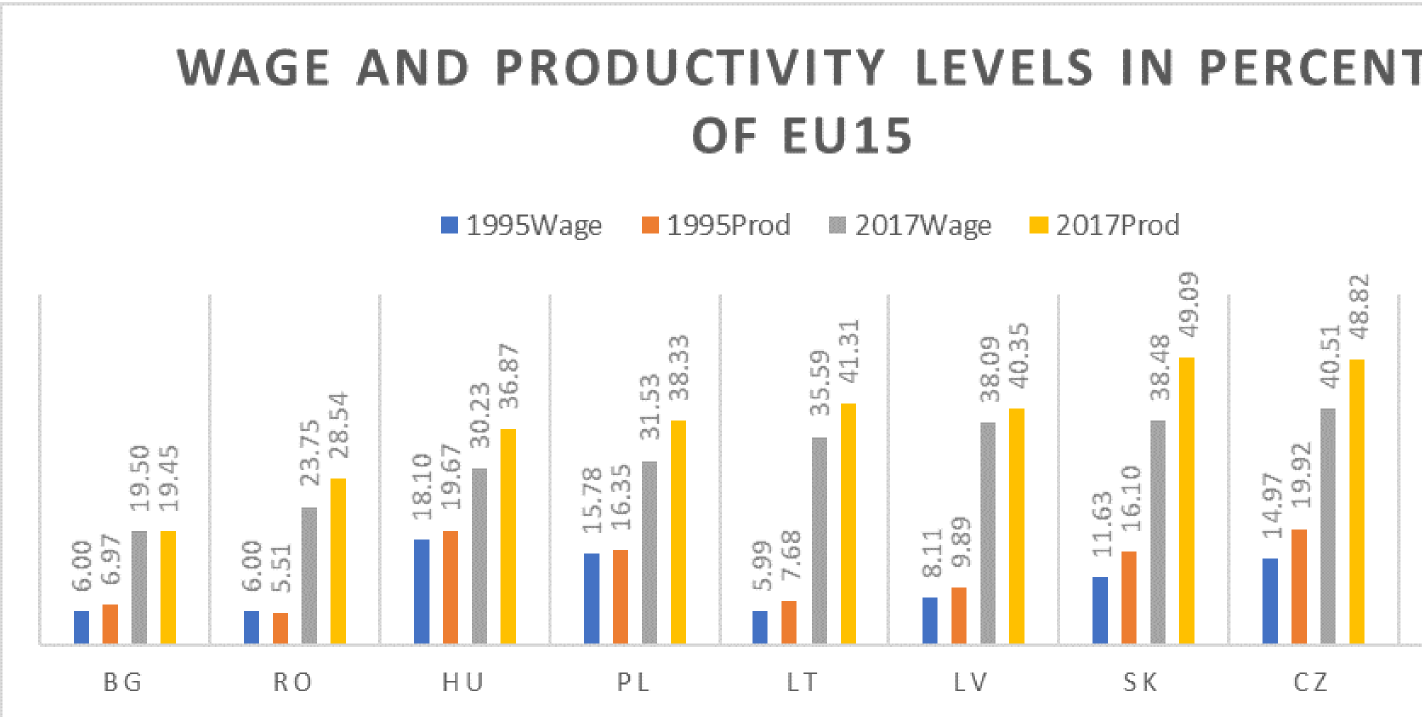
***Source:* real compensation/worker, real productivity per worker (AMECO, 2018)**

Labour productivity is defined as the ratio of real value added at factor cost to total. I use value added price index (GDP deflator) for real labour productivity and consumer price index (CIPH) for real compensation of employees – as the latter reflects the purchasing power of workers and takes account of import price changes.

The data in figure 1 show that between 2000 and 2016, wage developments were lagging behind productivity for the EU and for 14 Member states (Slovakia not shown due to its large-scale changes, with 180% increase in productivity and 162% increase in wages). For the EU28, labour productivity (as GDP/worker worked) in 2016 was 10.5 per cent higher in real terms than in 2000, while real compensation in the same period increased by a mere 2.45 per cent. Real productivity increase was thus more than four times the increase in real wages, which means that three quarters of the achieved labour productivity growth was not paid out in the form of wages. In Hungary, Romania, Portugal and Greece, real wages went down in the last 16 years, while productivity increased. Productivity increased three times more than wages in Germany, Ireland and Croatia, and two times more than wages in Poland, Belgium and Austria.

Member states where real wage increases were beyond productivity growth also deliver some lessons. The case of Denmark and Sweden shows that sound economic development and a high degree of competitiveness goes well with dynamic wage increases. While some of the Central Eastern European member states, including the Czech Republic, Latvia, Lithuania and Estonia, had higher wage increases than productivity, their relative wage levels are still lower than their relative productivity levels when compared to the EU15 average, as figure 2 shows. This suggests that their wage levels are not only much below the EU average in absolute terms, but also in relation to their productivity levels.

**Figure 2: Wage and productivity levels of selected member states as % of the EU15 (both in nominal euro terms)**




***Source:* Ameco (2018)**

In 2017, relative productivity as a share of the EU15 was 38 percent in Poland and 41.3 percent in Lithuania, while their wage levels stood at 31 and 35.5 percent. For the Czech Republic, the corresponding relative shares were 49 and 40 percent, and for Slovakia, 49 and 38 percent.

If wages are persistently lagging behind productivity, workers do not receive their fair share of the produced wealth. This is not only deeply unjust but also economically detrimental, as growth remains behind its potential. Labour income remains the main source of income for households and private consumption makes up the largest part of aggregate demand. Real wages falling behind productivity growth means that wage incomes do not grow and consequently consumption does not grow. This depresses demand prospects which also determine investment. Depressed wages do not provide an incentive for investments in technology and thus can hamper future productivity growth. For transformation economies a low wage trap can be a barrier for a long term catching up process. Europe`s competitiveness should not be based on low wages.

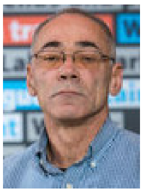
The decoupling of wages from productivity needs to be corrected and policies that exert pressure on wages should be phased out entirely. Instead of undermining it further, collective bargaining needs to be strengthened. Minimum wage policies should play an essential role in pushing the wage-floor upwards.

*Please read our comments policy before commenting.*

*Note: This article originally appeared at the New European Trade Unions Forum. It gives the views of the author, not the position of EUROPP – European Politics and Policy or the London School of Economics.*

---

**About the author**



**Bela Galgoczi** – *ETUI*
Bela Galgoczi is senior researcher at the European Trade Union Institute.